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Notes On "Boston Economy" Presentation To Standard & Poor's and Moody's, New York City, December 19, 1989

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FUNDAMENTALS

1. Employment

Boston had gained 116,000 net new jobs, in the twelve year period, 1976-88, - an annual average growth of 10,000. The boom accelerated in the 1983-88 years, with an annual average increase of 12,000. But Boston lost 5,000 jobs in 1989, an attrition of almost 1 percent. The slowdown is expected to continue in 1990, with recovery in 1991, and a 1990s decade advance of 85,000 jobs, - a lesser rate of growth than the 1980s.

The 1976-88 expansion responded to the notable performance of the region's hi-tech industry, and Boston's thriving pre-eminent finance and services activities, including health, higher education, business and professional services, and the hospitality industry.

2. The 1989-90 Slowdown

Job growth receded in 1989, with a loss of 6,000 jobs in finance, offsetting a continued expansion of services activities. The sea change in Boston's economy responded to local and regional factors. At the local level, there was labor shortage, induced job restructuring, automation, and gains in productivity. In the region, retrenchment in hi-tech, the overhang of an unsold inventory of the wrong kind of housing in the wrong places, the sharp increase in non-producing loans of the regional banks, and the fiscal disarray at the state level, adversely impacted the economic climate of the City. The change in the economy was also evidenced by lower rates of absorption of newly completed office space in 1988 and 1989, in comparison with the previous five years, and in the attrition of effective office rents. These factors and trends are also expected to hold for 1990.

3. Strengths of the Boston Economy, Outlook for the 1990s Decade

The Boston economy is strong with good growth prospects for the 1990s decade, nevertheless. The City's economic base is diversified, and continued growth in the broad range of services activity is expected. Growth in "new economy" activities, - medical research and spin-off manufactures, biotechnology, computer software, and continued expansion in the institutions of health and higher education are anticipated. Boston's economy is upscale with higher levels of wages and productivity than those in the metro region, state and nation. A measure of the relative prosperity in Boston is the reduction of family poverty from 18 percent, in 1980, to 11.5 percent in 1989. Poverty for white singles has virtually disappeared, and the two remaining groups in poverty are the minority working poor and single headed households. The lowering of poverty in Boston was all the more notable in comparison with other large cities where poverty has risen, according to a report of the Boston Foundation. Real wages, adjusted for inflation, have risen, in Boston, in comparison with the stagnation nationwide, according to Bluestone and Harrison, in The Great U - Turn. The large scale construction of the infrastructure megaprojects, - central artery depression, third harbor tunnel and harbor clean-up, will favorably impact the Boston economy in the 1990s, with sizeable effects beginning in 1991, and will broaden

the base for new stages of growth in the 21st century. Supplementing these positive factors, the negative regional trends are expected to work out of the system, in the course of 1990, with recovery in 1991, in accordance with forecasts of the New England Economic Project.

4. Office Vacancy Rates, Trends and Projections

Office vacancy rates rose from 5 percent, at the end of 1987, to 12 percent, at the end of 1988, as completions were double the norm of the preceding 5 years, and absorption about half. Vacancy rates stabilized in 1989, at 11.5 percent, with low rates of completions and absorption, and a similar pattern is projected for 1990. Vacancy rates are expected to hold in the 10-12 percent range with completions of 1.5 to 1.7 million square feet of space, per year, in the 1991-94 period. Those who monitor the City's office market, including Coldwell Banker and Salomon Brothers, credit Boston's careful metering of new office supply with maintaining a healthy office economy with modest vacancy rates and husbanding of property values.

5. Que of Developers, and Status of Large Construction Projects

Boston continues to enjoy a large and continuously replenishing que of developers. Most of the projects scheduled for completion in the 1990-94 period are already under construction. There will be some slowdown in a number of projects including Commonwealth Center, Downtown Crossing, Lincoln Plaza, and Parcel 18. Post 1994 completions will include the new Aquarium and a replacement project for Central Wharf, North Station, Olmstead Plaza, the World Trade Center, the South Station Technopolis, the Boston Science Center, and an array of projects for institutions of higher education and medicine. Boston expects to meter development carefully, in line with demand, to assure a healthy office economy.

6. Property Values

Attrition in effective office rents is estimated at 15 to 25 percent, by some brokerage firms. The Standard and Poor Liquidity Index showed a decline of 3 percent in 1989 for commercial property. The National Association of Realtors reports some decline in metro-region residential property values.

7. Retail Sales

The U.S. Census of Retail Trade reported a 4 percent annual rate of growth, 1982 to 1987, in real, inflation-adjusted, terms, in Boston. The Census Bureau also reported that the gain in retail sales 1987-89, in the metro area, was less than inflation.

8. Personal Income

Boston led the nation in 1982-87 growth in per capita income, and the wages and gross product per worker are also higher in Boston. Boston makes up one-fourth of the State gross product.

9. Census 1990

The 1990 Census will show a population gain for Boston, reversing the 1970-80 decline. This will be a factor in revenue growth for the City in terms of State disbursements.

10. Hotel Occupancy

Boston hotel occupancy was at a rate of 75 percent, in the first 10 months of 1989, in comparison with 77 percent, in the similar period in 1988, and the national average of 65 percent in 1989. Average room rates in Boston increased by 3 percent, in 1989.

11. Recession Length

Projections of the New England Economic Project, and those of other reputable local economists, point to recovery in 1991.

12. Impact of Scrapping Megaprojects

Megaprojects on-site construction jobs would average 3,800 per year in the 1991-98 period, in comparison with recent levels of 12,000 on-site construction jobs in Boston.